

# ***The Flow of Money ...***

**How a local economy grows  
and expands.**

*The Flow of Money*  
explains step-by-step  
how a local economy  
works and what  
communities must do  
to improve the  
economic quality of  
life for the people  
living and working in  
the area.

Dear Community Leader:

For the past twenty-two years, I have visited communities across the country determining the condition of their economy and offering ideas on how to improve or maintain the situation.

Some of these areas were growing and dynamic. Others were in significant decline.

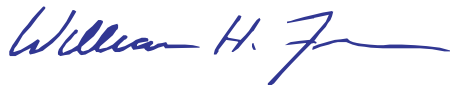
Most of time, one of the main reasons an area was doing well was the result of community leadership. Local governments, civic, and business groups teamed together to implement an aggressive “economic development program.”

Unfortunately, I also discovered one of the reasons an area was in economic decline was the absence of the desire to do what was necessary to reverse what was happening. Oftentimes this was the result of not understanding what had caused the problem and what was needed to correct it.

*The Flow of Money* has been written to assist community leaders in understanding the nature of their local economy. It presents the “basics” on what every community needs to do to cause a growing economy or to stop decline.

It is hoped that after reviewing *The Flow of Money*, communities will embrace and put into action what is necessary to improve the economic quality of life for all the residents in their community.

Sincerely,



William H. Fruth  
President

***Let us get started.***

You might have a brother, cousin or friend in another town or state who always seems to brag about how good things are in their community while in your town it seems to be economically “dead.” Alternatively, you might be the one doing the boasting, as your area is growing, dynamic, and expanding.

The difference, of course, is the condition of each “local” economy.

Each day we hear on the news what is going on with the national economy. Unemployment might be up or retail sales down, nationally. However, national data can have little resemblance to what is happening in the hundreds of local economies in the nation.

As an example, for the five years from 2011 to 2016, the nation had a 1.9% average annual increase in jobs. However, among the 383 Metropolitan Statistical Areas, only 6 had an average increase in jobs of 1.9% with 118 areas having faster growth and 259 areas slower.

During this period, Bend-Redmond, OR MSA employment grew at the annual rate of 5.5% and in the Sierra Vista-Douglas, AZ MSA jobs declined at the annual rate of 1.7%. Thirty-six areas lost jobs.

The growth in annual earnings per job (wages) has the same disassociation from national data. Over the same five years, nationally wages increased an average of 1.8%, but only 28 of the 550 Micropolitan Statistical Areas improved at the national rate with 246 growing faster and 278 slower.

The Findlay, OH Micropolitan Area improved a whopping 8.8% per year while the Butt-Silver Bow, MT Micropolitan Area suffered an annual decline of 3.8%.

The condition of the local economy affects people’s lives more than national data or trends reflect.

Why do some communities do better than others do? That is the billion-dollar question.

The *Flow of Money* will help you understand how your local economy works, the flow of money into the area, the flow of money out, and what causes this to happen.

We will learn the difference between growing in size and growing in quality, and review some of the characteristics of strong and weak economies.

Finally, we will discuss what communities like yours need to do in order to create a robust, dynamic area, improving the standard of living for all the residents.

So let us get started.



***A local economy can behave much differently than what national data suggests.***

***It is natural for people to resist change but such is inevitable.***

***Communities can choose to move forward, embracing positive change, or accept the policy of those who want to do nothing, preventing the future from ever visiting their community.***

### **What is a local economy?**

Before we can discuss how your local economy influences the businesses and lives of the people who live in your area, it is important to first understand what a local economy actually is.

A local economy is simply a geographic area where a vast majority of the people lives and works. Within this area, which can be as small as a single county or include multiple counties, people earn their money and spend their money. In essence, the area is a “contained” economy.

For the most part, the geographic boundary of a local economy is determined by the commuting patterns of the people in the area. The location and number of “jobs” within an area determines how big geographically the economy will be.

Job centers are like magnets. They draw people toward them. Just like a magnet, the closer you are to it, the greater the pull of the force. The further away from the magnet, the less the draw until there is no force at all.

The pull or draw of an employment center begins to diminish the further away someone lives from its location. It boils down to how long it will take someone to travel to work each day.

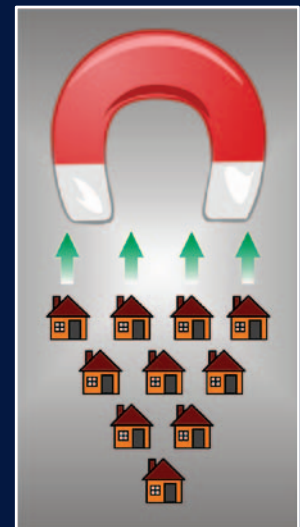
The extreme “reach” of an economy is approximately an hour. This is about the limit a person is willing to commute for a job. In the United States, the average commuting time is about 26 minutes. However, a vast majority of all economic activity occurs within 20 minutes of the “place of work” for an individual.

Areas can have multiple magnets in different cities and counties, causing a maze of commuting throughout, consequently linking the counties and cities “economically” even more. This is how “statistical areas” form.

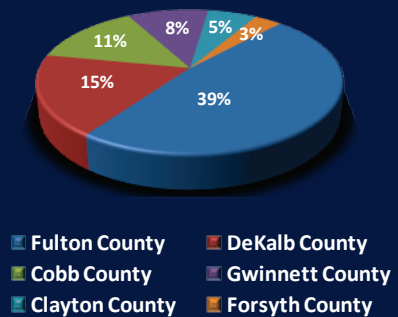
The federal government defines “contained” economies based upon commuting patterns. It has identified and designated 383 Metropolitan Statistical Areas and 550 Micropolitan Statistical Areas in the United States where a preponderance of the residents (approximately 75%) lives and works, earns and spends.

Metropolitan Statistical Areas (MSA) have at least one urbanized area of 50,000 or more population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties. They must have at minimum one county and most of the time includes several counties.

Micropolitan Statistical Areas (MICRO) are smaller areas. A Micropolitan Area must have an urbanized area of at least 10,000 population but less than 50,000 population. It must be at least one county. Most are a single county.



**Work In Fulton County (Atlanta), GA?  
Where do they live?**



**Of the more than 1 million people who work in Fulton County (Atlanta), GA only 39% live in Fulton County.**

### ***How a local economy works – the Flow of Money.***

Now that we know what a local economy is, we can discuss how it will grow or decline.

Imagine all of the wealth of a local economy is contained in a bucket. It swirls around and around, like being churned with a mixer. It goes from person-to-person, business-to-business, person-to-business, and is constantly moving.

One person buys a house and a bank makes a loan. The Realtor buys a car. The auto sales person buys a stereo. The storeowner makes a life insurance payment. The insurance agent pays school property taxes. The money moves on-and-on-and-on.

Money is like a hive of bees following the path of a three-dimensional spider web, moving from one point to another as it circulates throughout the economy.

However, there is a hole in the bucket causing the wealth of the community to leak out.

Every time you purchase an automobile, a good share of the purchase price returns to Detroit, Nashville, or Tokyo, or wherever the car was made. Every time you purchase a shirt, buy a pair of shoes, make your utility payment, go on vacation, pay your income taxes, money leaves the community and goes to the area in which the product was made or the service performed.

Money is continuously leaving the community through the hole in the bucket. The outward flow is constant, pervasive, and ongoing. Nothing can be done to stop it, no matter how small the hole.

So what should be done? A community needs to add money to its economic bucket, replenishing its supply.

A faucet at the top of the bucket needs to be turned on, filling it with fresh, rejuvenating wealth, which enables the churning process to continue.

Money is imported to an area principally by the business activity of the “primary” or contributory industries located within the economy.

A business that is a primary sells its goods or services outside the area, importing money to the local area.

When a manufacturer ships and sells its products, money flows into the home community. When a farmer sells grain, money flows into the home community. When an engineer designs a bridge in another state, money flows into the home community. When a research firm secures a federal grant, money flows into the local area.



## ***The Flow of Money ...*** How a local economy grows and expands.

When the primary business is paid for its goods or services, its workers are paid and the wealth enters the local economy. It is then mixed and churned; it ripples and multiplies, until it is eventually consumed, drained through the hole in the bucket.

The churning process of the wealth in the bucket generates most of the jobs for the residents within a community as goods and services are consumed.

For the most part, a business either contributes or consumes. If the business is not dependent upon the local marketplace for its revenues, it is “primary” in nature, a wealth contributor.

A vast majority of all businesses in an area are consumptive. This means they are dependent upon and use the money flowing into the area. They include most retail stores, service companies, restaurants, banks, doctors and lawyers.

Local government is a consumptive enterprise as it depends upon local money. If you check which companies advertise in the local newspaper, you will quickly get a list of consumptive, dependent businesses.

Typically, about 25% of an area’s workforce is employed by primary businesses with the balance working for consumptive enterprises. For the most part, only about 5% of the businesses in an area are primary, the rest consumptive.

A local economy, along with the consumptive businesses, will grow or decline in direct proportion to the amount of money being imported to the area by the primary businesses.

### ***Economic Impact – Churning in the Bucket.***

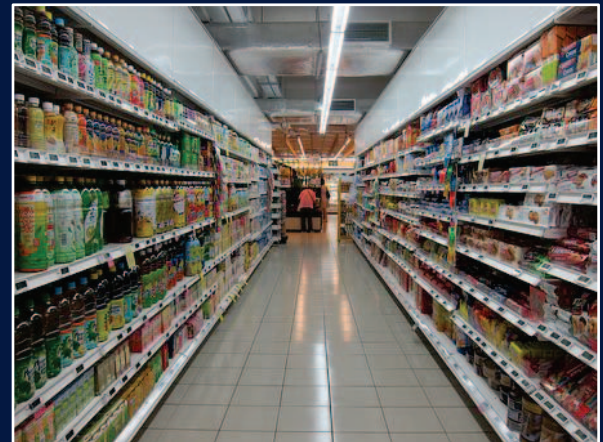
When a primary employer sells its products it has a positive economic impact upon the area.

The overall impact upon a local economy is based upon the wages paid, the amount of local support needed by the company (local purchases of products or services), capital investment (taxes paid), and the potential for ancillary companies to be formed because of the presence of the business in the community. The economic impact a primary enterprise has upon a community varies among industrial sectors.

For example, an automobile assembly plant will likely employ about 1,500 workers, piecing together parts to make the car. The cost of constructing the factory including equipment could very well have been \$2-3 billion and wages are very high. For this sector, this is just the beginning.



**Manufacturing is one of the sectors that imports wealth to a community.**



**Retailing depends upon and consumes the wealth that is imported to a community.**

## The Flow of Money ... How a local economy grows and expands.

It is quite likely more than 50 other companies in close proximity employ another 8,000 people.

These companies are manufacturing the parts for assemblage or providing technical support. As a result, the assembly plant has a significant overall economic impact upon the local economy.

A major insurance company that employs 1,500 workers has a different impact. The average wages are very high for this company as insurance actuaries and corporate executives are compensated very well.

However, this type of enterprise does not need very many support companies, like the automobile manufacturer. Also, it will occupy a general office building which costs much less than an auto factory which has to invest hundreds of millions in machinery.

While it is a very desirable business to have in a community, the overall economic impact is less than the automobile assembly plant.

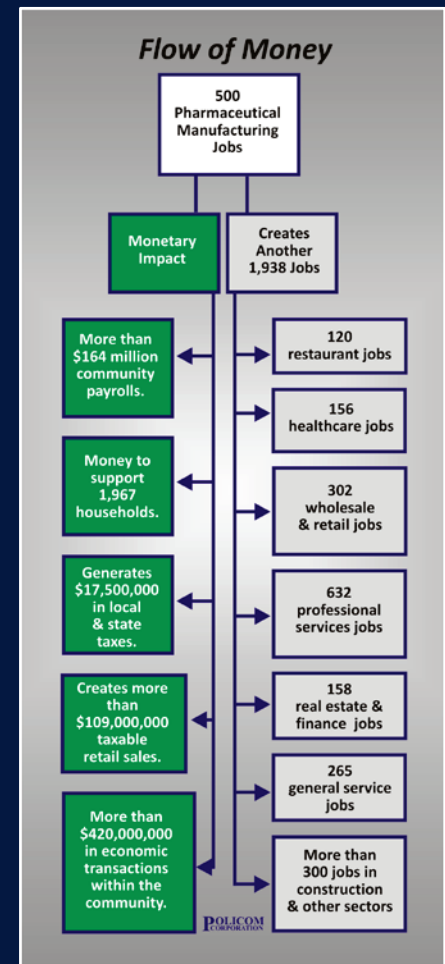
Continuing, a manufacturer of simple plastic products such as milk jugs or tubing requires few if any support companies and a relatively low skilled, low-wage workforce. While it contributes to the economy, the “ripple effect” or impact is much less than the first two examples.

The *Flow of Money* chart shows the annual economic impact upon a local economy of a pharmaceutical manufacturer, which employs 500 people and pays an average wage of \$67,500.<sup>1</sup>

As a result of this company being located in the community, about 1,938 additional spin-off jobs (mostly consumptive) are created, \$17,500,000 in local and state taxes collected, \$109,000,000 in taxable retail sales generated, and 1,967 households are supported.

The impact study is the mathematical calculations of the economic activity occurring during the mixing and churning within the bucket of wealth.

The economic impact by primary employers is not the same for all. Some do not have as great of impact as our example company. Others have more.



<sup>1</sup> The *Flow of Money* economic impact chart is based upon an actual economic impact study created by POLICOM for a community located in Florida. Overall impacts vary among industrial sectors (pharmaceutical manufacturing has one of the highest multipliers). The amount of impact also depends upon the number of support industries in the area and rates of taxation.

**What is “economic strength?”**

“Economic strength” is the long-term tendency for an area to consistently grow economically in both size and quality.

Each year POLICOM Corporation ranks the 383 Metropolitan Statistical Areas and the 550 Micropolitan Statistical Areas for economic strength. Twenty-three economic factors that reflect how consistently areas grew in size and quality over a twenty-year period are measured.

The economic strength rankings are created to enable POLICOM to study the characteristics of strong and weak economies throughout the United States. From this research, POLICOM is better able to recommend to communities what individual areas need to do to improve their local economy.

The highest ranked areas have had rapid, consistent growth in both size and quality for an extended period.

The lowest ranked areas have been in decline, sometimes rapidly, for an extended period.

It is a characteristic of strong economies to create or maintain primary industry jobs, which pay a wage higher than their local average wage, which improves the quality of the economy.

It is a characteristic of weak economies to either lose high-wage jobs, or create a plethora of low-wage jobs, which dilutes the quality of the economy.

One of the most important features of the strongest areas is they have diversified economies for the most part. This means they have multiple primary industries filling their bucket of wealth. This provides a consistent flow of money into the economy even if one of the industries has a downturn.<sup>2</sup>

**In what ways do local economies grow?**

Local economies are dependent upon bringing money into the area for economic growth. Money is imported principally by the business activity of the primary industries. The consistency of the economy is dependent upon how regular or dependable the flow occurs.

The increase or reduction in the size of the economy is in direct proportion to the amount of money flowing into the local economy. The quality of the economy, or the standard of living for the people, seeks the level of the wages paid by the contributory businesses.

2018 Ten Strongest Metropolitan Areas	
1	Austin-Round Rock, TX (MSA)
2	Napa, CA (MSA)
3	Seattle-Tacoma, WA (MSA)
4	Nashville-Davidson, TN (MSA)
5	San Jose-Sunnyvale, CA (MSA)
6	Indianapolis-Carmel, IN (MSA)
7	Dallas-Fort Worth, TX (MSA)
8	Salt Lake City, UT (MSA)
9	Raleigh, NC (MSA)
10	Denver-Aurora, CO (MSA)
2018 Ten Strongest Micropolitan Areas	
1	Bozeman, MT (McrSA)
2	Lewisburg, PA (McrSA)
3	Truckee-Grass Valley, CA (McrSA)
4	Traverse City, MI (McrSA)
5	Wooster, OH (McrSA)
6	Andrews, TX (McrSA)
7	Durango, CO (McrSA)
8	Edwards, CO (McrSA)
9	Kapaa, HI (McrSA)
10	Dickinson, ND (McrSA)



<sup>2</sup> For the economic strength rankings for all statistical areas, please go to [www.policom.com](http://www.policom.com).



## ***The Flow of Money ...*** How a local economy grows and expands.

### **Growth in Size or Volume**

There are several ways to measure the growth of the size of a local economy. Let us look at some of them.

Remember the discussion on how money, once it enters the bucket of wealth, it is mixed and churned. The flow back and forth is the result of “transactions.” When you buy a pair of shoes, there is a transaction. When you go to the doctor, there is a transaction.

One of the components of “economic impact” is the value of all the transactions, which occur because of the presence of a particular business enterprise in an economy.

You have likely heard the term “gross domestic product” (GDP). This is the measure of all the transactions in the United States. Counties and cities also have a “gross product.”

The dollar amount of transactions can become a very large number. The 500-job pharmaceutical manufacturer causes about \$420,000,000 in transactions each year.

Gross and taxable retail sales are also a way to measure the growth in the size of an economy. Retail sales are essentially the purchases made by consumers at the end user level while transactions are the movement of all the money in the economy.

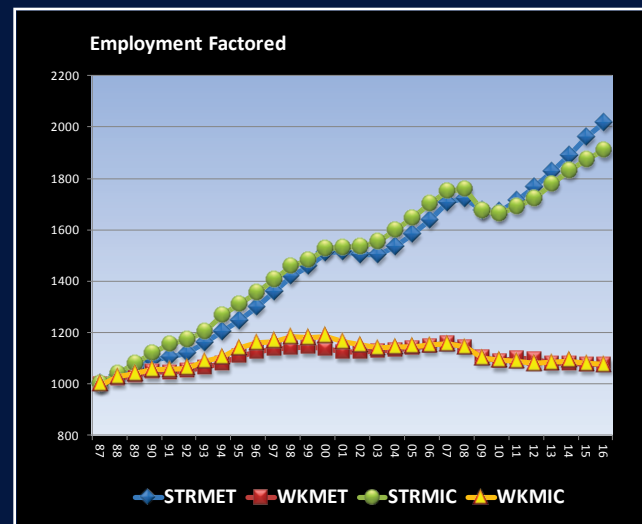
Typically, taxable retail sales are about 20% of all transactions, but this varies from county to county and state to state. The 500-job manufacturer causes about \$109,000,000 in taxable retail sales each year. As the volume of money increases in the economy, there are more transactions, thus more taxable retail sales, which are of interest to local government.

Economic growth, as it affects the people who live and work in an area, is often measured by the increase in the number of jobs and total worker earnings.

Total worker earnings are all the wages and salaries paid and the profits of sole proprietor businesses. Worker earnings account for most of the money circulating in the bucket, causing the vast majority of all of the transactions to occur.

As worker earnings increase, the amount of transactions and gross retail sales also increase.

By increasing the number of jobs, those, which are unemployed, have the opportunity to earn and spend. In addition, employers now compete for the best workers, providing opportunities for all to improve themselves.



**The strongest economies have had rapid consistent growth for a very long time.**  
(Average of the ten strongest and weakest areas – 1987-2016.)

## ***The Flow of Money ...*** How a local economy grows and expands.

The strongest economies in the nation have had a significant increase in the number of jobs and total worker earnings because of the growth of their primary industries.

The weakest economies have had little growth in employment and some have fewer people working in the area than ten-years ago. For some weak areas, after adjusting for inflation, they actually have fewer dollars in the economy than they did twenty-five years ago.

However, just creating jobs of any kind can actually hurt a local economy in the long run. It is a myth that “any new job will help an area.” It is time to talk about “quality.”

### **Growth in Quality**

The quality of the economy is a reflection of the standard of living of the people residing and working in an area. It is the amount of money earned by the individuals annually.

Earl Nightingale, the famous writer and philosopher, was fond of saying, “There is nothing more important than money ... for the things money is intended.”

Money has purchased better housing, better food, warmer clothing, more leisure time, better health care, better education, and a more secure retirement than poverty ever has.

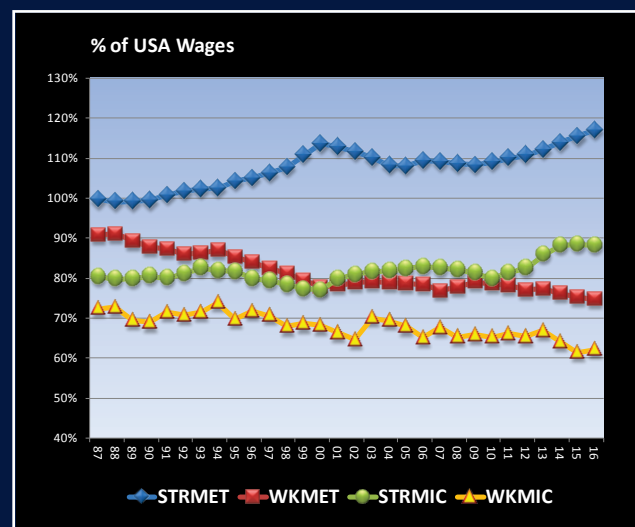
The amount of money an individual earns each year, for a vast majority of the people, determines their lifestyle. The annual wages in a local economy, therefore, reflect the quality of the economy.

The type of primary industry jobs located in the economy determines the quality of the economy. The average area wage will seek the level of, but cannot exceed, the wages paid in the primary industries.

If a local economy has a large number of primary employers, which employ high-wage workers, the overall level or quality of the economy, including the consumptive industries, will rise toward those wages.

If the area is dominated by primary businesses, which pay low-wages, the overall quality will be pulled down to that level.

In fact, the addition of low-wage primary jobs into a high-wage economy can actually hurt an area.



**The strongest economies have improved in quality for the last 20 years.**  
(Average of the ten strongest and weakest areas – 1987-2016.)

## ***The Flow of Money ...*** How a local economy grows and expands.

Typically, a low-wage employer would not locate in a high-wage economy, as its workforce would not be available. But what if the employer “imported” the low-wage, low skilled workforce.

Since this employer does not pay a wage sufficiently high enough to support a household in a high-wage economy, the community will actually have to subsidize this employer through increased property taxes (schools and county services), housing subsidies, and a host of other low-income programs.

Because of the presence of individuals “willing to work for less,” the wages for existing low-skilled jobs, such as retailing, will actually decline. In this case, the entry of a low-wage employer actually hurts, or brings down, a high-wage economy.

The quality of this economy will begin to seek the level of the low-wage employer, as it is an anchor pulling down the workforce to its level.

However, if an area is weak, lackluster, or chronically distressed economically with high unemployment, the entry of the low-wage employer is welcome.

In addition, when a moderate-wage employer enters a low-wage economy; its presence will lift all other jobs in the area.

### ***How can we improve a local economy?***

What can communities do to improve the local economy, to increase the amount of money flowing within the area and improve the standard of living for the people who live and work in the community?

It is very simple.

Create more primary industry jobs, which pay a wage higher than the area average wage.

By doing this, more money will flow into the economy and the quality of the economy will improve over time.

Not only will the wages for the workers enter the bucket of wealth, so will all the spending and taxes paid by the companies themselves.

As a result, all businesses will grow, more taxes will flow to local government enabling more and better services, schools will improve, and socio-economic problems will begin to fade.

When a community increases the number of high-wage primary industry jobs, a “force” pulls up the bottom rung of the economic ladder, lifting all through a series of wage and skill steps, improving the standard of living for most people.



**As the quality of the economy improves, so does the economic quality of life for the residents.**

## The Flow of Money ... How a local economy grows and expands.

Suppose a new primary employer locates to the area and employs 200 workers paying \$65,000 per year. It will naturally draw its workforce from those employed at the \$55,000 rung on the wage ladder (principally because of skill level). At that point, the employers who pay \$55,000 will replace the workers from those on the \$45,000 level, who will be replaced by those on the \$35,000 rung. The upward draw eventually pulls new people into the workforce.

This “force” also causes part-time low paying retail and service jobs to fold into full-time jobs at higher wage levels and with fringe benefits.

The quality of the economy will continue to rise if the new primary jobs created in the area pay a wage higher than the local average.

However, the quality will regress, decline, or dilute if new primary jobs created pay less than the area average.

### **What is economic development?**

All of the discussion regarding how local economies work now brings us to “economic development.”

Economic development is the process or activity, which is focused upon improving the overall economic strength of a community and the economic quality of life for all of the residents in the area.

Economic development differs from community development.

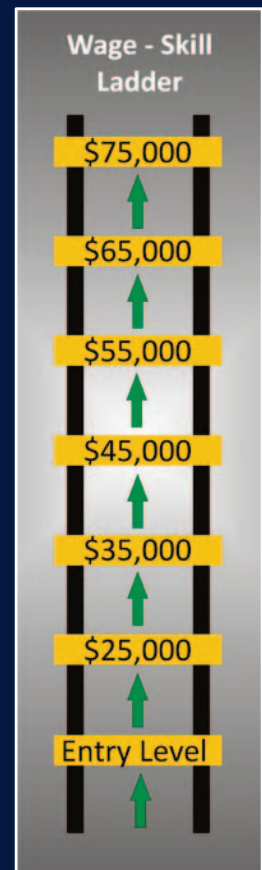
Community development, while an important activity for an area, is designed to relieve or cure socio-economic problems within the community. The program assists a specific geographic section or economically distressed class of residents in the community.

Programs, which eliminate urban blight, revitalize crime-ridden neighborhoods, or provide housing assistance to the poor are community development activities. However, they are not economic development activities.

A successful economic development program will improve the standard of living for all the residents. Oftentimes, when successful, the need for community development programs begins to fade.

There are three basic economic development programs, which focus directly on creating primary industry jobs: 1) existing industry program, 2) attraction-recruitment program, and 3) start-up program.

The **Existing Industry Program** fosters the retention and causes the expansion of the existing primary-contributory businesses in the community. It is the most important yet least expensive of the three programs.



## ***The Flow of Money ...*** How a local economy grows and expands.

Many communities have fallen into economic distress simply because their existing primary industries have reduced employment or left the area entirely.

Many times the reason the company has curtailed its operation is the result of a reduction in its marketplace, foreign competition, or locally generated costs have exceeded profitability.

An existing industry program focuses on ways to reduce the costs to primary businesses as much as possible, thus causing them to be as profitable as possible. Additionally, a community can help a company, especially smaller companies; expand the market for its products or service. As profitability increases, the companies not only do not leave the area, but they expand and employ more people, creating economic growth.

The secret to a successful existing industry program is to build trust between the primary employers and the community at large. Because of this trust, the company will willingly communicate problems caused locally with community leaders, who, in turn, work to solve these issues.

Few people realize that aside from market conditions, the most frequent reason a company will leave one area and move to another is “local community attitude.”

Essentially, if the community has treated a company poorly over a period of years, and this treatment has added costs to the operation, when it comes time to expand or “retool,” the company will seek a community in which it can be more profitable.

The **Attraction or Recruitment Program** encourages new contributory companies to locate in the area. The program is designed to increase the amount and quality of money flowing into the area and to make the economy more consistent through diversifying the types of contributory businesses.

A recruitment program is time consuming, expensive and results may take years. Yet, even for growing economies, the program is desirable if for no other reason than to offset the eventual curtailment of its existing companies. For areas, which are in decline or lack diversity, recruitment is necessary.

An Attraction – Recruitment Program is constructed in a similar fashion to the marketing program of most businesses. The following are the steps taken:

1. Determine what you have to sell.
2. Identify who wants to buy what you have to sell.
3. Then, repeatedly, overall a long period, ask them to buy your product.

### ***Community Economic Development Rules***

**Rule 1: Our existing companies are more important than companies yet to move here.**

**Rule 2: If you do not think existing companies are more important than companies yet to move here, read Rule 1 again.**

**- William H. Fruth**



## ***The Flow of Money ...*** How a local economy grows and expands.

Now, your product is not your “community.” Many people think it is. Most people believe that where they live is the best place in the world. They believe, since it is a great place to live, companies will move there. Sorry. This is not the case.

What you have to sell is a geographic pinpoint that has certain economic assets that will cause a company to be profitable if it is located there. Therefore, when you “determine what you have to sell,” you are actually making an inventory of these assets.

Every community has assets and liabilities relative to profitability for primary enterprises. Some have more or less of each. Those with the most assets and fewest liabilities have the best chance to create a dynamic economy.

In order to “identify who will want to buy what you have to sell,” you need to examine the various industrial sectors to determine what types of companies need your assets and can cope with your liabilities. You market to these companies.

The **Start-Up Program** is necessary to cause the creation of new contributory companies, which have a chance to grow and develop as the years pass.

Several communities in the United States have created dynamic economies by “growing their own” primary businesses. By assisting and coaching imaginative entrepreneurs, an idea can grow into a thriving business. Dell Computer was once a “Start-Up” company.

The visible and financial rewards to the community of such a program are in the future. Patience is required.

Essentially, a Start-Up Program assists a local person who has an idea for a new product or service, which can be marketed outside the area (primary). Most of the time the individual does not have the financial resources or the knowledge to take this “great new idea” from a great thought to a great product. This is where the community comes in.

The community has a team of professionals ready to guide the individual through the process of determining if the idea has merit, the development of the product, and the eventual marketing of the product. Usually a building (incubator) is needed along with venture, investment capital to convert the idea into an active business.

Most of the successful Start-Up programs have a relationship with an institution of higher learning (university or large community college).

Overall, an economic development program should limit its activities to servicing existing, attracting new, and causing the creation of primary, wealth generating employers.



**Auburn University Business Incubator**

## ***The Flow of Money ...*** How a local economy grows and expands.

All of the other jobs in the area, which consume the money flowing into the area, will “take care of themselves” because of the expanding marketplace.

### ***So how do we do it?***

The first step in trying to get primary employers to expand in or locate to your community is to understand the most important concern of these companies, which is “profitability.”

Companies do not exist to provide jobs for a community, to pay taxes to local government, or to add money to the bucket of wealth. Primary businesses are on this planet for only one purpose ... to make money.

If they do not, they close. And when they close, all of the jobs, worker payrolls, taxes to government, and customers at the stores they created will disappear. Period.

While the sales for a primary employer are generated from outside the area, many or most of its costs (expenditures) are driven locally.

When a business conducts its community – site selection evaluation, it will consider a host of issues including wage rates, the cost of utilities, highway, airport, and seaport systems, local and state taxes, higher educational resources, and on and on and on.

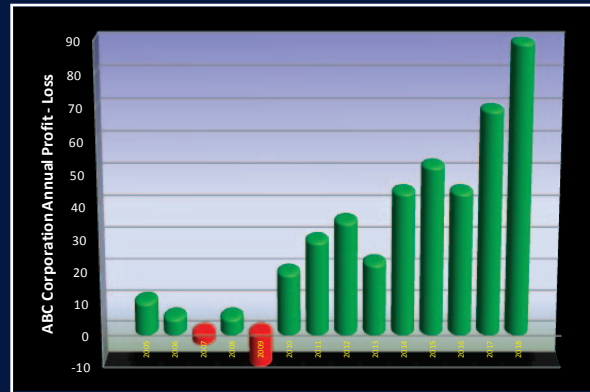
However, usually a business will have one or two major geographic economic issues, which must be satisfied to locate in an area.

As an example, if a company needs an abundant supply of inexpensive electricity, then communities with low electric rates are given priority consideration. A major distribution center will locate only in areas with direct access to the interstate highway system. A corporate headquarters typically will not locate further than sixty minutes from a major airport.

For businesses that will invest hundreds of millions of dollars in its facility, such as a drug manufacturing facility or data center, the local property tax rate is of great concern. A software development company usually needs to locate close to a university, which offers advanced degrees in computer science.

While there are specific needs for most projects, more than 100 economic issues relative to the state or the community will be reviewed to determine their effect upon the cost of producing the product or service.

A company is not necessarily looking for the “cheapest” area, but the one, which offers the best “value.” Communities, which are the most profitable location for companies, will be the ones considered.



**Businesses cannot exist unless they are profitable.**



**A community needs to reduce locally generated costs to its primary employers as much as possible.**

**The second most important issue ...**

There are two issues more important than the others.

The second most important issue regarding the site selection process is the “availability of trained or trainable labor.”

Without people to do the work, a business cannot succeed. However, having a “bunch of bodies” available to be hired is not sufficient for most high-wage primary employers.

Businesses, which pay the high wages, also require a workforce of equal value.

As a result, the top tier businesses will seek a community in which the workforce either is trained or has the aptitude to be trained for the tasks they demand.

The “Wage Ladder” on Page 10 is also a “Skill Ladder.” A worker is paid in direct proportion to the “value of service.” Higher wages are paid to workers with the most experience, education, and overall knowledge, as these are the traits necessary to perform the tasks required by the high-wage employer.

So, when a primary employer is examining a community, it will review the current industries to determine if a potential workforce is available. If it requires an array of high-skilled people and such a potential workforce is not present, it will not locate in the area.

Earlier discussed was the process of how individuals climbed the wage ladder because of the \$65,000 employer hiring new workers. At each upward step, new and better skills are necessary for the worker to earn the higher wage.

Communities, which address the issue of providing training for each of the skill level steps, have a competitive advantage over those that do not.

Many communities in the United States have addressed this issue with passion and vigor by working directly with their existing employers and creating customized training programs for each. This has created a consistent flow of qualified workers within the community.

Therefore, if a community wants to improve the quality of its economy by attracting higher paying companies, the skill and education level of its workforce needs to be addressed at each step of the wage ladder.





***The most important issue ...***

The most important issue relative to the “site selection” process is having an actual “site.”

In fact, without improved, approved real estate for primary employers, a local economy will decline.

Economic development is ultimately a real estate transaction. In order for an existing company to expand, a new employer to move to the area, or a start-up business to grow, each needs a place to do it. They need a building.

If a vacant, modern facility is not standing ready to be occupied (usually there are no suitable buildings available), a structure needs to be constructed. This means land must be ready.

All of the other geographic issues, such as transportation access, utilities, labor availability, or taxes are not considered if a place to operate the business cannot be provided.

A local economy will indeed decline if land is not available. Existing primary employers, when they need to expand, will have to leave the area causing a loss of money flowing into the economy.

Additionally, new, high-wage companies cannot come to the community, as there is not a place to construct a modern facility. Spin-off businesses coming out of the incubator will have to grow in another town.

The term “improved, approved” has been used continuously. What does it mean?

“Improved” real estate has the entire horizontal infrastructure in place. The roadways leading to the property, electric service, sewer and water lines are “to the site.” Essentially, the property is “building-ready” and there will not be any delays starting construction.

Just as important, the land needs to be “approved” by the local government. All planning and zoning issues need to have been resolved in advance.

When a company is looking to locate in a community, it typically does not have the time to wait for a community to construct the infrastructure to the real estate or pass local legislation regarding land use and zoning. This process could consume one-to-two years (even longer in some states and counties).

As a result, site seekers will summarily dismiss communities, which do not have a building-ready site upon which it can construct a facility, regardless of all the



***7,500-acre Golden Triangle Regional Global Industrial Aerospace Park – Columbus, MS***



***250 acre NextEdge Research and Technology Park - Springfield, OH***

## ***The Flow of Money ... How a local economy grows and expands.***

other geographic economic assets in the area. The community will be taken “off the list” at the start of the process. This is a problem for some communities.

Many communities in the United States fully understand this issue. This is why hundreds of counties and cities have invested in community owned industrial parks or employment centers.

The property is reserved for primary employers and is not available for consumptive businesses. The land is looked upon by the community as a long-term investment in their economic future. It might take ten-to-twenty-years for the land to be fully absorbed. Of course, once it is absorbed, the community is right back in the position of not having any land available.

### ***Let’s review what we have learned ...***

A local economy is a place where people live and work, earn and spend. Its growth is dependent upon money flowing into the area, principally imported by the primary industries.

To improve a local economy, an area needs to increase the number of primary businesses, which will pay a wage higher than the area average.

To do this, the economic development organization should focus on companies that can utilize the area’s geographic economic assets and have the greatest impact.

Does this mean if your community has hundreds of acres of improved, approved real estate and a trained or trainable workforce, you are guaranteed to have economic growth? No.

What it means is you have a chance. Without both, however, you have none. But there is one more issue that will determine if your area grows or declines.

It is “local community attitude.”

In order to do all the things necessary to build an economy, the support of the “people” and all local governments is necessary. Local laws need to encourage economic growth, not stifle it.

Funding, from the private and public sector, needs to be available to pay for an aggressive economic development program, land, training, transportation systems, incentives, and all the other issues, which influence profitability.

Existing companies need to be encouraged, not berated. New companies need to be welcomed, not protested.

It is a characteristic of the strongest economies to have the full support of the people and local government to cause and drive it to happen.

***Economic forces are constantly working against a community, not in its favor.***

***Communities that choose to do nothing are doomed to economic, then social decline.***

**Start  
Here**



## About POLICOM

POLICOM Corporation is an independent economics research firm which specializes in analyzing the dynamics of local and state economies.

From its study, it determines if an area is growing or declining, what is causing this to happen, and offers solutions and ideas to improve the local economy.

POLICOM has served as an economic development consultant for communities throughout the United States for more than twenty-years.

Founded in 1995, POLICOM has examined the condition of more than 800 local economies, created more than 200 community economic studies, and its President, William H. Fruth, has given economic development presentations in 40 states.

Annually POLICOM ranks all the Metropolitan and Micropolitan Statistical Areas for "economic strength" which is the long-term tendency for an area to consistently grow in size and quality.

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**“Whatever must  
happen eventually,  
should happen  
immediately.”**